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Summary:

West Des Moines, Iowa; General Obligation

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Credit Profile

US\$22.49 mil GO urban renewal bnds ser 2015A due 06/01/2029		
Long Term Rating	AAA/Stable	New
US\$12.835 mil taxable GO urban renewal bnds ser 2015B due 06/01/2025		
Long Term Rating	AAA/Stable	New
US\$3.475 mil GO urban renewal rfdg bnds ser 2015C due 06/01/2020		
Long Term Rating	AAA/Stable	New
West Des Moines GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to West Des Moines, Iowa's series 2015A general obligation (GO) urban renewal bonds, series 2015B taxable GO urban renewal bonds, and series 2015C GO urban renewal refunding bonds. At the same time, we affirmed our long-term rating and underlying rating (SPUR) on the city's previously rated GO bonds. The outlook is stable.

A pledge of the city's full faith and credit and an agreement to levy ad valorem property taxes without limit as to rate or amount secure the bonds. The city intends to use series 2015A proceeds for urban renewal projects under the urban renewal plan for the Alluvion Urban Renewal Area. Series 2015B proceeds will be used for urban renewal projects and to fund incentives pursuant to a development agreement with Microsoft. Series 2015C proceeds will be used to crossover refund the city's series 2008B GO bonds for interest cost savings.

The rating reflects our assessment of the following factors for the city, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 47% of operating expenditures and the flexibility to raise additional revenues despite statewide tax caps;
- Strong budgetary performance, with operating results that were slightly positive in the general fund and balanced at the total governmental fund level;
- Very strong liquidity, with total government available cash of 130.1% of total governmental fund expenditures and 6.5x governmental debt service and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges of 20.1% and net direct debt that is 136.1% of total governmental fund revenue, but rapid amortization with 85.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider West Des Moines' economy very strong. West Des Moines, with an estimated population of 60,485, is in Dallas, Polk, Madison, and Warren counties in the Des Moines-West Des Moines MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 135% of the U.S. level. Overall, its market value grew by 2.6% over the past year to \$6.4 billion, equaling per capita market value of \$105,972 in 2016. Polk County's unemployment rate was 4.6% in 2013.

West Des Moines is adjacent to the state capital, Des Moines. It has a substantial employment base itself, and residents have easy access to the entire greater Des Moines MSA. Larger employers in West Des Moines include: Wells Fargo (7,819 employees), Hy-Vee Food Stores (headquarters and retail, 2,408), Kum & Go (convenience store chain headquarters and retail, 1,790), West Des Moines Community School District (1,145), Athene USA Corp. (insurance, 1,120), and Farm Bureau Insurance & Financial (1,048). Taxable value increased 7% between 2010 and 2014 to over \$4 billion. The tax base is divided between residential (47%) and commercial (41%) properties. Microsoft is now included in the top taxpayers and is expected to increase after the planned development is completed per the valuation agreement connected to this bond issue, but will not be a major employer in the city.

Strong management

We view the city's management conditions as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city addresses long-term planning with a five-year capital improvement program (CIP) and three-year internal financial planning that it updates at least annually. The city adheres to a fund balance target of maintaining a minimum of 25% of expenditures in the general fund at the end of each fiscal year but this policy is not formalized.

Very strong budgetary flexibility

West Des Moines' budgetary flexibility is very strong, in our view, with an available fund balance in 2014 of 47% of operating expenditures, or \$25.3 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years and the city has the flexibility to raise additional revenues despite statewide tax caps, both of which we view as positive credit factors.

West Des Moines is levying at its maximum general fund operating rate of \$8.10 per \$1,000 valuation, but retains roughly \$8.3 million (nearly 17% of general fund revenue) in annual revenue raising flexibility if it fully used the employee benefits and FICA and IPERS levies.

Strong budgetary performance

West Des Moines' budgetary performance is strong, in our opinion, with slightly positive results in the general fund of 0.8%, and balanced results across all governmental funds of negative 0.3% of in fiscal 2014.

We expect budgetary performance to remain strong despite projecting a nearly \$6.1 million (10.7%) general fund deficit in fiscal 2015. First, we expect the city to report better-than-budgeted results and the fiscal 2016 general budget is break-even after accounting for a small one-time capital expenditure. The total governmental fund results are status quo and expected to be nearly break-even in fiscal 2015 and 2016.

Very strong liquidity

In our opinion, West Des Moines' liquidity is very strong, with total government available cash of 130.1% of total governmental fund expenditures and 6.5x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Weak debt and contingent liabilities

In our view, West Des Moines' debt and contingent liability profile is weak. Total governmental fund debt service is 20.1% of total governmental fund expenditures, and net direct debt is 136.1% of total governmental fund revenue. Approximately 85.0% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. West Des Moines' combined pension and other postemployment benefit contributions totaled 4.6% of total governmental fund expenditures in 2014. The city made its full pension annual required contribution (ARC) in 2014.

Overall net debt includes overlapping debt and tax-increment debt, but excludes self-supporting enterprise revenue debt. We understand that the city plans to issue approximately \$12.15 million in GO debt in 2016 and approximately \$7.5 million annually to fund its CIP in subsequent years.

West Des Moines contributes to two employee retirement systems, the Iowa Public Employees Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa, both cost-sharing, multiemployer defined-benefit pension plans. The city sponsors a single-employer health care plan for retirees. Retirees on the plan pay the full premium, resulting in an implicit liability for the city. The ARC is \$153,000, which the city finances on a pay-as-you-go basis. As of July 1, 2012, the unfunded actuarial accrued liability was \$1.47 million.

Strong institutional framework

The Institutional Framework score for Iowa cities with a population greater than 2,000 is strong

Outlook

The stable outlook reflects our view that West Des Moines' budgetary flexibility and liquidity will remain very strong, supported by strong management. We do not expect to lower the rating in the next two years, as we expect the city's budgetary performance to remain strong and its other credit characteristics to continue.

Although unlikely, we could lower the rating should the city draw on reserves more than nominally after a period of weak or very weak budgetary performance. The city's role in a broad and diverse MSA and its very strong economic indicators support the outlook.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Iowa Local Governments

Ratings Detail (As Of March 5, 2015)

West Des Moines GO

Unenhanced Rating

AAA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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